

BOARD ACTION MEMORANDUM

TO: NCUA Board

DATE: January 8, 2014

FROM: Office of General Counsel
Office of Examination and Insurance

SUBJ: Proposed Rule: Prompt
Corrective Action; Risk-Based Capital
(Part 702)

ACTION REQUESTED: NCUA Board approval to publish the attached proposed rule in the *Federal Register* with a 90-day public comment period.

DATE ACTION REQUESTED: January 23, 2014

OTHER OFFICES CONSULTED: Regional Offices, Office of National Examination and Supervision, Office of the Chief Economist

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: Larry Fazio, Director, and Steve Farrar, Loss/Risk Analysis Officer, Office of Examination and Insurance; and John H. Brolin, Staff Attorney, Office of General Counsel.

SUMMARY: Since NCUA promulgated the rules defining the minimum capital requirements and Prompt Corrective Action (PCA) supervisory actions for credit unions in 2001, there have been only two major revisions. The first, in 2008, incorporated changes to the statutory definition of “net worth” and the second, in 2013, excluded credit unions with assets of \$50 million or less from the definition of a “complex” credit union.

Events over the past several years, however, have prompted NCUA to propose further revisions to the existing PCA regulation. These events include:

- Basel II in June 2004 and Basel III in September 2010, which revised international capital standards for financial institutions;
- the 2007–2009 recession, which exposed weakness in capital retention and risk measurement;

- GAO reviews of the PCA system within the financial services industry, which provided suggestions for improvement in capital standards; and
- the interim final Regulatory Capital Rules adopted by the Federal Deposit Insurance Corporation in July 2013, which established new minimum capital requirements for PCA in the banking industry. Section 1790d(b)(1)(A)(ii) of the Federal Credit Union Act requires comparability with bank PCA requirements.

NCUA's proposed rule would amend part 702 of NCUA's PCA regulations to restructure the part and make various revisions, including replacing the agency's current risk-based net worth requirements with new risk-based capital requirements for federally insured "natural person" credit unions.

The proposed risk-based capital requirements would be more consistent with NCUA's risk-based capital measure for corporate credit unions and the regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and Office of the Comptroller of Currency. In addition, the proposed revisions would:

- revise the risk-weights for many of NCUA's current asset classifications;
- require higher minimum levels of capital for federally insured natural person credit unions with concentrations of assets in real estate loans, member business loans, or higher levels of delinquent loans; and
- set forth the process for NCUA to require an individual federally insured natural person credit union to hold higher levels of risk-based capital to address unique supervisory concerns raised by NCUA.

The proposed revisions would also eliminate several provisions of NCUA's current part 702, including provisions relating to regular reserve accounts, risk-mitigation credits, and alternative risk-weights.

A copy of the proposed rule will be posted on the Proposed Regulations page of the NCUA's website at <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx>.

RECOMMENDED ACTION: NCUA Board issue the attached proposed rule.

ATTACHMENT: Proposed rule